

Message Text

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ACTION EB-08

INFO OCT-01 ISO-00 EUR-12 INR-10 INRE-00 L-03 SS-15
SSO-00 /049 W
-----125420 131656Z /14
O 131529Z APR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 7628

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E.O. 11652: N/A
TAGS: EAIR, GW
SUBJECT: CIVAIR: USG-FRG CONSULTATIONS

REF: BONN 6720

SUMMARY: THE FOLLOWING IS AN ANALYSIS OF FRG AVIATION
POLICY FOR POSSIBLE USE BY THE DEPARTMENT IN
PREPARING FOR NEXT WEEK'S CONSULTATIONS. FRG POLICY
IS MOTIVATED BASICALLY BY A DESIRE TO SUPPORT THE
NATIONAL CARRIER LUFTHANSA. IN ADDITION THERE IS
CONCERN OVER THE OVER-ALL HEALTH OF THE MARKET, OVER
RELATIONS WITH ECAC PARTNERS AND WITH THE PROSPERITY
OF THE CHARTER CARRIERS WITHIN THEIR PROPER LIMITATIONS.
THE BUDGET FARE IS SEEN AS UNNECESSARY TO GERMANY AND
AS NECESSITATING CONCESSIONS TO CHARTER CARRIERS THAT
WOULD ADVERSELY AFFECT LUFTHANSA. LIMITATIONS ON
CHANGE OF GAUGE AND FIFTH FREEDOM CAPACITY FOR PAN AM
IS DESIGNED TO SECURE A LARGER SHARE OF THE MARKETS IN
QUESTION FOR LUFTHANSA. LIMITING SUPER APEX FARES TO
DIRECT ROUTES IS ASSERTED TO BE NECESSARY FOR THE FARE
TO BE ECONOMICAL. THE FRG BESIDES WISHING TO PROTECT
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LUFTHANSA ALSO WANTS AN ADDITIONAL DESTINATION IN THE
US SOUTH AND EXPECTS TO BARGAIN FOR A TRADE-OFF.
OFFICIALS HAVE EMPHASIZED THAT THEY ARE APPROACHING
THE NEGOTIATION WITH A FRIENDLY ATTITUDE.

1. THE FOLLOWING ANALYSIS OF FRG POLICY ON US-FRG BI-
LATERAL CIVIL AIR RELATIONS, ITS MOTIVATION AND RATION-

ALE, IS SUBMITTED FOR POSSIBLE USE IN DEPARTMENT'S PREPARATIONS FOR BONN CONSULTATIONS AND FOR SUCH DISTRIBUTION TO OTHER PARTICIPANTS AS DEPARTMENT MIGHT DEEM APPROPRIATE.

2. THE STARTING POINT FOR POLICY CONSIDERATION MUST REALISTICALLY BE RECOGNIZED AS THE FRG'S ESTIMATION OF WHAT IS GOOD FOR LUFTHANSA. SOME POLICY ORIGINATES WITH LUFTHANSA (E.G. THE CURRENT TRANS-ATLANTIC FARES) WHILE OTHER IDEAS BEGIN IN THE AVIATION DEPARTMENT OF THE FEDERAL MINISTRY OF TRANSPORT (FMT) AND ARE COORDINATED WITH LUFTHANSA. THE INTERESTS OF CHARTER CARRIERS ARE DEFINITELY SECONDARY, NOT LEAST BECAUSE THE LARGEST SUCH CARRIER IS CONDOR, A WHOLLY OWNED SUBSIDIARY OF LUFTHANSA. PRESSURE FROM THE TOURIST INDUSTRY FOR LIBERALIZATION OF CHARTER RULES AND FOR LOW FARES DOES NOT APPEAR TO BE SIGNIFICANT.

3. OTHER IMPORTANT DETERMINANTS OF POLICY ARE THE CONCEPTS OF FMT EXPERTS ON REASONABLE PRINCIPLES OF INTERNATIONAL AVIATION ADMINISTRATION, I.E., WHAT WILL MAKE THE SYSTEM AS A WHOLE HEALTHY, AND RELATIONS WITH THE FRG'S PARTNERS IN ECAC, ESPECIALLY WITH FRANCE. THIS LAST HAS BECOME LESS A FACTOR WITH THE RECENT US-UK, US-NETHERLANDS AND US-BELGIAN AGREEMENTS.

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4. IN THE CONSULTATIONS, THE FRG WILL BE CONCERNED ON THE ONE HAND TO PROTECT LUFTHANSA AND, ON A LESSER LEVEL OF IMPORTANCE, ITS CHARTER CARRIERS FROM WHAT IT PERCEIVES AS THREATS FROM USG POLICIES ON LOW FARES AND CHARTER RULES AND FROM WHAT IT CONSIDERS UNDUE ADVANTAGE TO PAN AMERICAN ON CERTAIN OF THAT AIRLINE'S ROUTES BEYOND GERMANY. ON THE OTHER HAND, THERE IS A STRONG DESIRE AND HIGH HOPES FOR A NEW DESTINATION FOR LUFTHANSA IN THE US SOUTH. FMT OFFICIALS HAVE MADE IT CLEAR THAT THEY WISH TO BARGAIN ON THE BASIS OF A TRADE-OFF OF SUCH RIGHTS FOR FRG CONCESSIONS IN THE FIELDS OF CAPACITY, CHANGE OF GAUGE, FIFTH FREEDOM CAPACITY AND, WE WOULD GUESS, FARES AND CHARTER RULES ARE ALSO NEGOTIABLE ON THIS BASIS.

5. AN IMPONDERABLE FACTOR, THAT SHOULD NOT MATERIALLY AFFECT THE CONSULTATIONS BUT SHOULD BE BORNE IN MIND, IS THE POOR RELATIONS BETWEEN THE FMT AND PAN AM. THIS GOES BACK FOR YEARS AND RELATIONS CURRENTLY ARE AT A VERY LOW POINT. FMT OFFICIALS CONSIDER PAN AM

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ACTION EB-08

INFO OCT-01 ISO-00 INR-10 INRE-00 L-03 SSO-00 SS-15
EUR-12 /049 W
-----124330 131655Z /14

O 131529Z APR 78
FM AMEMBASSY BONN
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ARROGANT AND CONTEMPTUOUS OF THEIR AUTHORITY, AND
SEE PAN AM'S CURRENT DEFIANCE OF AN FMT ORDER TO
CEASE AND DESIST FROM ADVERTISING AND SELLING
BUDGET FARES AS AN EXTREME EXAMPLE OF THIS ATTITUDE.
THEY FREQUENTLY CONTRAST PAN AM'S BEHAVIOR
UNFAVORABLY WITH THAT OF TWA AND OTHER US CARRIERS.
PAN AM FOR ITS PART CONSIDERS LUFTHANSA AS BEING
AS BAD AS ANYBODY IN DIRTY TRICKS AND RULE-BENDING
AND PERCEIVE THE FMT AS LUFTHANSA'S WILLING
ACCOMPLICE.

6. AN FMT OFFICIAL FRANKLY ADMITTED THAT FARE
POLICY WAS DETERMINED BY LUFTHANSA. A BUDGET FARE
WAS REJECTED FOR THE OXD BECAUSE IT WAS CONSIDERED
UNNECESSARY. IT WAS SEEN AS AN ANSWER TO THE SKY
TRAIN FOR CARRIERS SERVING LONDON-NEW YORK, A SERVICE
WHICH DOES NOT DIRECTLY AFFECT LUFTHANSA. IF
PASSED, IT WOULD HAVE TO BE BALANCED WITH
LIBERALIZATION OF CHARTER RULES OR IT WOULD PUT
CHARTER CARRIERS OUT OF THE MARKET. LIBERALIZED
CHARTER RULES, IN TURN, WERE SEEN AS TOO MUCH OF
A THREAT TO LUFTHANSA'S SCHEDULED SERVICES. FMT OFFICIALS
HOLD THAT THERE IS A NEED AND A PLACE FOR CHARTER
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CARRIERS, BUT THEY MUST NOT BE PERMITTED TO IMPACT UNDULY ON SCHEDULED SERVICES.

7. THE SUPER APEX FARE WAS CHOSEN AS GIVING LUFTHANSA, AND INCIDENTALLY THE OTHER SCHEDULED CARRIERS, A REASONABLE CHANCE TO COMPETE FOR A SHARE OF THE ABC TRADE. THE PROHIBITION ON INTER-LINING AND INTRA-LINING IS JUSTIFIED BY THE ASSERTION THAT THE FARE IS AN ECONOMICAL ONE ONLY FOR NON-STOP AND DIRECT FLIGHTS. THE APEX FARE, BY CONTRAST, IS HIGH ENOUGH TO PERMIT INTER-LINING AND INTRA-LINING AND THE FMT HAS NOT SOUGHT TO RESTRICT IT TO DIRECT FLIGHTS.

8. BEYOND RELATIVELY NARROW CONSIDERATIONS OF ADVANTAGES AND DISADVANTAGES TO LUFTHANSA, THERE IS GENUINE ANXIETY ON THE PART OF FRG EXPERTS OVER THE EFFECT OF USG POLICIES ON FARES. THERE IS FEAR THAT LOW FARES WILL DRIVE AIRLINE INCOME BELOW BREAK-EVEN LEVELS. IF THIS SHOULD COME ABOUT, LUFTHANSA IS EXPECTED TO SURVIVE, BOTH BECAUSE IT IS AN EFFICIENT OPERATOR AND BECAUSE IT WILL RECEIVE GOVERNMENT SUBSIDIES IF NEEDED. BUT NEITHER THE AIRLINE NOR THE GOVERNMENT HAS A TASTE FOR A DARWINIAN STRUGGLE THAT WILL MEAN LOSSES IN THE SHORT RUN EVEN THOUGH LUFTHANSA MIGHT ULTIMATELY EMERGE IN A FAVORED POSITION. PUT DIFFERENTLY, THE FRG AND LUFTHANSA WANT AN ORDERLY MARKET AND ARE CONFIDENT THAT LUFTHANSA WILL PROSPER IF THAT IS OBTAINED.

9. ON CHANGE OF GAUGE AND OTHER CAPACITY LIMITATIONS ON PAN AM, THE MOTIVATION IS ADMITTEDLY TO ALLOW A BIGGER SHARE OF WHAT IS FOR PAN AM FIFTH FREEDOM TRAFFIC. FMT OFFICIALS JUSTIFY THEIR RESTRICTIONS ON PAN AM BY CITING THE PROVISION OF THE US-FRG BI-LATERAL LIMITED OFFICIAL USE

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(ARTICLE L0) THAT AIR SERVICES SHALL BEAR A CLOSE RELATIONSHIP TO THIRD AND FOURTH FREEDOM TRAFFIC. THEY OBJECT TO PAN AM'S OFFERING GREATER CAPACITY THAN LUFTHANSA BETWEEN FRANKFURT AND SOME BEYOND POINTS.

L0. REFTTEL MAKES THE POINT THAT FMT OFFICIALS CONSIDER THEIR CURRENT TROUBLES WITH PAN AM OVER THE ADVERTISING AND SALE OF BUDGET FARES AND INTER OR INTRA-LINING SUPER APEX FARES AS MATTERS OF ENFORCEMENT RATHER THAN INTER-GOVERNMENTAL QUESTIONS. THUS THE TONE OF FMT COMMUNICATIONS DO NOT MEAN THAT THE FMT IS ADOPTING A SIMILAR ATTITUDE TOWARD THE CONSULTATIONS. ON THE CONTRARY, REHM AND PAAS HAVE EMPHASIZED TO US RECENTLY THAT THEY ARE NOT ENTERING THE CONSULTATIONS

IN A TRUCULENT MOOD. THEY HOPE FOR A FULL AND
FRIENDLY EXPLORATION OF THE SITUATION WHICH AT A
MINIMUM WOULD CLARIFY THE RESPECTIVE POINTS OF VIEW.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CIVIL AVIATION, POLICIES, BRIEFING MATERIALS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BONN06780
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780159-0418
Format: TEL
From: BONN
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780462/aaaacaeq.tel
Line Count: 227
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 28fd39b1-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: STADIS
Reference: 78 BONN 6720
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2985510
Secure: OPEN
Status: NATIVE
Subject: CIVAIR: USG-FRG CONSULTATIONS
TAGS: EAIR, GE
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/28fd39b1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014